

ATTACHMENT 2

To: Members, Water Use Efficiency Subcommittee
From: Tom Gohring
Date: January 8, 2003
Re: Draft Funding Policy Principles

Attached please find an updated copy of the document, *Draft WUE Implementation Funding Policy Principles and Associated Activities*.

This document is being developed by the WUE Subcommittee to help guide the way the CALFED Program and CALFED Agencies handle funding and allocation issues related to the WUE Element. This document is informed by the past WUE Subcommittee meetings, as well as e-mail and work group discussions.

The document incorporates a handful of changes based on the Subcommittee's most recent deliberations on November 5 and subsequent comments from DWR staff. The primary changes, noted in underline/strikethrough, focus on:

- Incorporating into the "Associated Tasks" portion citations from the ROD – both from the WUE and CALFED Finance Plan sections – related to user fees and in-kind contributions.
- Providing more context regarding the relationship between CALFED and the implementing agencies.
- Clarifying that the principles are not listed in priority order.

Please review the attached material carefully and come to the January 17 meeting prepared either to confirm the document or make specific revisions. Given past discussions, we do not expect to substantially revise the document further.

CALFED Bay-Delta Program

Water Use Efficiency Implementation Funding ~~Draft~~ WUE Subcommittee Funding Policy Principles and Associated Activities

(Reviewed and revised based on August 28 Staff Work Group, September 11 WUE Subcommittee meeting and November 5 WUE Subcommittee meeting. For final discussion at January 17, 2003, Subcommittee meeting)

The CALFED Record of Decision (ROD) stipulated funding levels and activities to guide implementation of the Water Use Efficiency (WUE) Element, which is committed to funding locally driven projects expected to achieve CALFED benefits in a cost-effective and scientifically sound manner.¹ The ROD anticipated that some funding issues would need to be resolved and called for development of a WUE finance proposal and determination of WUE funding needs.

As the CALFED program moves forward, these existing ROD commitments and variations in local, state and federal funding levels necessitate articulation of a clear set of principles to guide the ongoing allocation decisions within WUE and across all CALFED Program elements. The CALFED Program refers to cooperative state-federal efforts to balance the state's competing demands for water. CALFED comprises implementing agencies (DWR, USBR, State Board and others) and the California Bay-Delta Authority.

Below are a set of draft funding principles – and associated activities – recommended to guide such decision-making as it relates to the CALFED WUE Element, ~~and its~~ implementation partners and the Authority. The principles are not listed in priority order.

Principle 1: The Water Use Efficiency Element must be funded in balance with other CALFED Program elements.²

Principle 2: Consider and integrate the full range of sources and strategies when identifying potential local, state and federal WUE funding sources. These could include: (1) accessing ROD-stipulated funding streams; (2) identifying new funding sources and authorities; and, (3), accessing other state and federal funds available under existing authorities, including reallocating existing state and federal monies to more effectively meet program objectives.

¹ CALFED WUE funding is focused primarily on local water conservation and recycling projects expected to yield real water savings, flow/timing, or water quality benefits. In its first two years, the WUE Element has funded dozens of agricultural and urban water use efficiency projects. Examples of funded projects include: voucher incentive program for clothes washers, efficient landscape water programs, buried drip irrigation and water recycling construction programs. The CALFED ROD indicated that full funding (\$1.5 to \$2 billion) for the WUE Element could result in between 1.0 and 1.35 million acre-feet savings during Stage 1. Substantial investment in science and monitoring activities is required to refine these projections and confirm actual savings over time.

² Although the Subcommittee recognizes that cross-Element funding decisions are beyond its purviews, it believes it is important that, as CALFED funding inevitably fluctuates from the levels outlined in the ROD, WUE funding remain commensurate with other CALFED activities.

- Principle 3: Recognize local investments in WUE-related projects and endeavor to determine the benefits towards meeting Bay-Delta objectives. Local investments will be tracked over time to determine the share of local contributions.
- Principle 4: Stay consistent with the local, state and federal funding ratios included in the ROD for the WUE Element, while striving to keep WUE activities fully funded and meeting program objectives. Deviation from ROD funding ratios within WUE may be appropriate if and when it helps the WUE Element to more efficiently achieve program objectives.
- Principle 5: Emphasize the importance of funding for the Water Use Efficiency Element during the early years of CALFED implementation, as its activities are expected to: (1) generate early documented benefits needed to meet CALFED goals; and (2) facilitate WUE-specific Year Four assessments and CALFED-wide Year Seven decision-making. This principle necessitates, in particular, timely funding of both grant- and loan-funded local projects and scientifically based performance measures, monitoring and analysis.
- Principle 6: Support and fund the development of (1) reliable measures for quantifying; (2) criteria for monitoring; and, (3) independent scientific review of WUE program performance in a manner that is transparent, accountable and technically sound, and relies on credible strategies for quantifying and estimating realized WUE benefits, including water savings, reliability, in-stream flow and water quality. Analyses should account for actual WUE funding levels.
- Principle 7: Allocate funding in a manner that is transparent, accountable, scientifically based and driven by CALFED objectives.
- Principle 8: CALFED expects that local entities will invest in locally cost-effective WUE projects. CALFED agencies will strive to provide grant funding for projects that are not cost effective locally, but are expected to generate CALFED benefits in a manner that is most cost-effective from a statewide perspective. The allocation of CALFED funding for projects should be prioritized in a manner that maximizes potential CALFED benefits, including the amount of water saved.
- Principle 9: Allocate funding across WUE Element tasks in a manner that maximizes CALFED benefits as identified in the ROD. In making this allocation, factors should include: (1) targeting grant funding to local entities to facilitate and demonstrate early results; (2) enabling balanced implementation of WUE-specific ROD commitments related to grant and loan funding, assurances, and sound science; (3) providing balanced funding to the different WUE components; and, (4) accounting for appropriate work plan adjustments based on program implementation experience.

The pursuit of these policy principles demands an ongoing analysis of WUE-related funding appropriations, allocations and activities. Below is a brief listing of staff- related activities that are expected to facilitate stakeholder and policy-maker review of WUE and implementation partner funding decisions.

While not part of the policy principles, the tasks below are presented here to provide examples of how the principles will be supported by implementation activities. These tasks are likely to be updated to meet Program implementation needs.

Task 1: Perform a comprehensive review of WUE funding sources

- Sub-Task 1: Analyze funding ratios among local, state and federal sources
- Sub-Task 2: Analyze funding levels relative to ROD commitments
- Sub-Task 3: Analyze and define funding sources, particularly as it relates to local users³

Supports Policy Principles 1, 2, 3 and 4

Task 2: Perform a comprehensive review of the need for sound science in development of water use efficiency measures called for in the ROD.

- Sub-Task 1: Prepare a comprehensive list of the scientific analysis needs anticipated to assure implementation of the ROD.
- Sub-Task 2: Complete a review of progress to-date in meeting those scientific needs.
- Sub-Task 3: Complete an assessment of the future scientific needs, along with the anticipated costs for implementation of the studies.

Supports Policy Principles 6, 7, 8 and 9

Task 3: Perform a comprehensive review of WUE-related funding allocation decisions by task, by component and by ROD commitments

- Sub-Task 1: Analyze expected benefits/results based on current funding allocations
- Sub-Task 2: Analyze projected shortfalls/ramifications based on current funding allocations

³ The CALFED ROD incorporates different language related to funding sources. This footnote provides relevant excerpts. In the section on WUE funding, the ROD includes the following language: "Funding for the completion of the Water Use Efficiency Program will be determined through the Legislative and Congressional budget processes. The CALFED governing body will determine additional funding needs by the middle of 2004, which will be based upon the results of the program review and stakeholder input. Future funding, if necessary, may be sought through a bond measure that may also fund other out-year costs of the CALFED Program." The CALFED Finance Plan attached to the ROD includes the following: "One item of discussion in the CALFED Program has been the use of a broad-based Bay-Delta system user fee (user fee) to finance at least a portion of those program elements, or program elements, with broad public elements, such as the ERP and portions of the Watershed Management and Water Quality Program elements."

Supports Policy Principles 3, 4, 5, 6, 7, 8 and 9

Task 4: Review CALFED and implementation partners' process for making funding allocation decisions

Sub-Task 1: Analyze decision-making priorities, processes and associated public involvement

Supports Policy Principles 4, 5, 7, 8 and 9

Task 5: Develop and implement a comprehensive plan to provide adequate funding for the WUE Element

Sub-Task 1: Based on analysis, project future funding mix needs and allocation priorities

Sub-Task 2: Identify new funding sources and re-allocations opportunities

Sub-Task 3: Develop recommendations to guide future strategies for: (1) advocating for adequate funding with funding agencies, legislators and the public; and, (2) making allocation decisions by CALFED and its implementation partners

Supports all Policy Principles